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From Developmental State to Autonomy: The politics of business associations in Taiwan and South Korea

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Taiwan and South Korea

Abstract: This paper explores the transformation of business interest organization in South Korea and Taiwan. I would explore how the state, capital, and labor respond to the currents of democratization and economic liberalization and how the interaction between these parties shaped the incentives and organizational costs of business interest organization. I argue that there is a divergence in business interest organization in South Korea and Taiwan. We see that the businesses in South Korea have developed a rather centralized network of business association, while the business interest organization has become increasingly pluralistic in Taiwan. The empirical research presented in this paper would explore the reasons behind such divergence. I suggest that the strength of labor militancy, the difference in the politics of economic restructuring, and the different pattern of party politics are the causes of such differences.

Introduction

There have been great insights and attention around business association in the field of political economy recently. Scholars of political economy have started to realize the economic and social role of business associations and how their roles affect productivity and national comparative advantage on the one hand, and universality and coverage of welfare policies on the other hand. The Varieties of Capitalism literature for instance suggests that economies with non-market coordination facilitate high-value added manufacturing, long-term investment, and incremental innovation (Hall and Soskice 2001). Others suggest that an encompassing peak business association creates a platform for the exchange of policy ideas and facilitates policy consensus for more equal and universal welfare policies (Martin and Swank 2001).

We see that the literature concerning the role of business association and business coordination in the political economy has been growing. However, the scope of the literature on the political and economic role of business associations is

rather limited. With a few exceptions, most of the analyses study advanced industrialized countries like the United States, Western European states, and Japan. Analysis on the role of business coordination and business organization in the economy is very limited in the newly-industrializing countries (NIC).

Part of the reason of such scarcity is that political economists focusing on developing countries emphasize more on the role of the state in economic development and industrialization. The success story of the East Asian NICs, especially South Korea, Taiwan, and Singapore was thoroughly studied (See Wade 1990, Woo-Cumings 1999, Amsden 1989, Evans 1995). In particular, scholars largely acknowledge how the entrepreneurial role of the state in economic governance, export promotion, technological transfer, socialization of investment risks, direction of investment, or even repression of labor to the rapid growth in East Asia. Many connect the sustainable economic development and successful industrial upgrading with the developmental state, with a highly autonomous and embedded bureaucracy (Evans 1995). The political economic analysis of the developing countries tends to lean towards the developmental state.

Indeed, the role of the state in economic development has been crucial to the East Asian growing economies. Yet we should remind ourselves that much have changed in the developing world in the past two decades, especially in East Asia.

Globalization has pressured the states to lift controls of interest rates, exchange rates, entry of foreign competitors, and capital flows. Many of the industrial policies and economic policy tools are no longer applicable in the increasingly globalized market. More importantly, many of these countries have undergone a process of

democratic transition. Democratization has weakened the authority and power of the developmental state, in particular the powerful planning agencies and economic bureaucracy. On the other hand, with the liberalization of the financial market, businesses are more independent and autonomous. We can expect that the state can play a relative smaller role in the economy and the business actors should be more independent and more capable in coordinating collective actions.

Given the political and economic changes I mentioned above, we might have the following questions concerning the NICs in East Asia: What happens to the business associations in these East Asian NICs? How are business associations transformed after industrialists broke off the control and dependence of the state after economic liberalization and democratization? How are business organized and coordinated and how does coordination affect comparative advantage of the economy and the development of social policies?

This paper attempts to answer the following questions. Democratization and economic liberalization have created new incentives and needs for interest organization, particularly business interest organization. Democratization changed the power relations between the state, capital, labor, and society. Such power reallocation, I argue, changed the calculation of the business community to organize and participate in collective actions. Also, the current of economic liberalization changed the state-business relations, and such realignment of state-business relations would create new incentives and directions for business relations. The first objective of this paper is to explore the transformation of business interest organization in South Korea and Taiwan. I would explore how the state, capital, and

labor respond to the currents of democratization and economic liberalization and how the interaction between these parties shaped the incentives and organizational costs of business interest organization.

The second question I would like to address in this paper is that, do we see a convergence in business interest organization in these post-developmental countries? We expect that countries with a state-corporatist interest organizational structure would gradually transform into a societal corporatist form of interest representation. However, my empirical research suggests the contrary. Despite the similarities between South Korea and Taiwan in the developmental era, we see a divergence in business interest organization in South Korea and Taiwan. Businesses in South Korea have developed a rather centralized network of business association, while the business interest organization in Taiwan has become increasingly pluralistic in Taiwan. We see a centralized peak trade association, the Federation of Korean Industries (FKI), and a centralized employers association, the KEF (Korean Employers Federation) was established and empowered in South Korea. In contrast, there are six peak associations, the National Federation of Industries (NFI), the National Federation of Commerce (NFC), the National Council of Industry and Commerce (NCIC), the China National Association of Industrial and Commerce (CNAIC), the National Association of Small-and-Medium-Sized Enterprises (NASME) in Taiwan.

The empirical research presented in this paper would explore the reasons behind such divergence. I suggest that the strength of labor militancy, the difference in the

politics of economic restructuring, and the different pattern of party politics are the causes of such differences.

The paper will be divided into three major parts. In the first part, I will provide a literature review on the studies related to business interest organization, focusing on the functions of business associations, the cross-national differences of business associations, and the possible reasons accounting for such differences. In the second part, I will explore the process of transformation in South Korea and Taiwan. The case study section will be subdivided into three parts: first, the initial conditions of social control and economic development, second the changes in the political and economic environment, and third, the response of business and state actors to these changes and the transformation of business associations in the two countries. At the end, I will provide a brief comparison and conclusion.

Literature Review

In this section, I will provide a literature review on the politics of business interest organization. In the first part of the review I will discuss the major functions and utilities of business associations. In the second part of the review, I will enumerate on the different forms of business interest organization. In the third section, I will present the dominant reasons behind the cross-national difference in business interest organization: the positive and negative impact of state, party and labor actors.

I. Why do Business Actors organize? Collective Benefits and Functions of

Business Associations

All collective actions involve a common good. Understanding the common good of and the initial incentives for the collective action would help us understand the politics of business mobilization and the transition of business interest from the developmental authoritarian era to the democratic era.

Businesses organize for two types of benefits: economic and social. As Windmuller and Gladstone suggest, there are two major types of business associations, one is employer associations, which specialize in labor-related or social issues, and the other is trade associations, which specialize in economic collective actions (Windmuller and Gladstone 1984). For the trade associations, Doner and Schneider further divide them into market supporting functions and market complementary functions (Doner and Schneider 2000). Market supporting activities are more common in developing countries where business associations are involved in strengthening the overall functioning of the market by supporting the provision of basic public goods including strong property rights, effective public administration, and infrastructure. Trade associations in developing countries sometimes lobby for better infrastructure, petition against state predation and infringement of property rights, and pressure for the improvement of bureaucratic capacity and efficiency that facilitates industrial growth and increase in productivity (Doner and Schneider 2000).

Market complementary activities involve in market-simulating activities, many of which cannot be achieved without collective actions and coordination among

business actors. Market complementary activities include macro-economic coordination like income policies as well as horizontal coordination like monitoring, entry control, recession cartels, quality control of exports, standardization, joint research and development projects, collective vocational training, standard setting, technological transfer (Doner and Schneider 2000).

Employer associations, on the other hand, are involved in stabilizing and reducing the cost of one factor of production: labor. Employers organize collective actions and foster consensus on labor related issues and represents the business community in general in the media on issues related to labor policies, vocational training, and social welfare. (Gladstone and Windmuller 1984).

II. Business association and coordination: A Typology

Although all business actors have common benefits in organizing and creating business associations, there are different structures of business organization in different countries. Business associations differ not only in organizational structure, but also in their level of collective action. In the following section, I will explore the differences of organizational structure and coordination among business associations.

1. Organizational structure of interest Groups: Philippe Schmitter's framework

Large interest groups like business associations and labor unions could have of hundreds of thousands of members, with subsidiary unions and associations in different regional areas and sectors. To manage such complex network, a

sophisticated organizational structure is needed. Understanding the organizational structure between the discrete interest groups, thus, is crucial to understand the function and organizational strength of the network of business associations.

One of the most widely cited works on organizational structure of interest groups is probably Philippe Schmitter's *Still the Century of Corporatism*. Schmitter considers business representation as a system and analyzes institutional structure of interest representation based on five categories: monopoly, choice of entry, competitiveness, hierarchy, and functional differentiation. For Schmitter, there are two ideal models of interest representational system: pluralist and corporatist. Pluralist system consists of multiple, competitive, functionally similar associations. In a pluralist system, firms can choose to join and exit the associations at will since there are little restrictions to entry and exit. Under a pluralist system, there is competition among the associations for memberships, since the function of the associations overlaps and each association tries to maximize its membership to enhance its influence in the business community and in the public domain. There are usually multiple centers in such interest representational system and the national level associations have little authority over the lower level associations (Schmitter 1979).

A corporatist system is a mirror opposition to the pluralist system, consisting of singular, non-competitive, functionally differentiated associations. Membership is compulsory and the associations are hierarchically ordered. The state grants monopoly of representation to associations on all levels, thus associations do not overlap functionally. There is usually a centralized decision making body and the

associations in the lower strata of the hierarchy have to respect the decision from above since the exit cost is usually high (Schmitter 1979).

2. Variety of Corporatism and Business Coordination

i. State versus societal corporatism

As we see in the previous section, business interest organization can be classified based on the singularity, functional differentiation, and hierarchy. Interest representational systems usually fall into the categories of pluralism and corporatism. While scholars find cross-national differences between different pluralist systems are insignificant, they see significant cross-national differences among the corporatist interest organizational systems.

The first difference is the autonomy of the business association and the immunity from state influence and manipulation. Schmitter differentiates the societal corporatist model from the state corporatist model based on the source of legitimacy of the network of business associations since there are systems where business associations are not totally independent from the state. For the societal corporatist system, legitimacy of the polity lies in the delegation of power to the autonomous interest representational groups. The state forms a partnership with the business associations and has little direct influence over their decision, organization, and activities.

Yet for the state-corporatist system, since the legitimacy of the state lies elsewhere, the state has the authority to manipulate business associations in the polity. In most cases, the polity is ruled under an authoritarian state, and the

legitimacy of the government is usually enhanced by the state's sponsorship of social organizations. The state, instead of delegating power to the societal partners, incorporates them into the state apparatus for social control and manipulation (Schmitter 1979). Such differentiation will be important in our analysis. I argue that in the authoritarian regime, both South Korea and Taiwan fit into this category before democratization in the late 1980s. Business and labor interest groups were functionally differentiated, monopolistic, and hierarchically ordered but had little autonomy and independence.

ii. macro-, meso-, and micro-corporatism

Another difference between different business organizational systems is the level in which business coordination takes place. Based on the different levels of business coordination, scholars classify corporatist business coordination into three types: macro-corporatism, meso-corporatism, and micro-corporatism (Martin and Thelen 2007; Grant 1985; Streeck 1995) Macro-corporatist coordination involves national level coordination between state, business, and labor. In this case, business interests are organized in a centralized, encompassing peak association. The peak association represents the interest of the entire business class and bargains with state and labor actors in the national level. The prominent example of macro-corporatism is Sweden, where there are institutions like national level tripartite policy consultation as well as centralized wage bargaining (Swenson 2002; Martin and Thelen 2007).

Meso-corporatism involves mainly sectorial coordination including industrial level wage bargaining and vocational training. The prominent example of meso-

corporatism is Germany. While the national level corporatist apparatus still exists, much of the coordination are done at the industrial level (Martin and Thelen 2007)

As for micro-corporatism, coordination takes place at the enterprise level. Institutions like the Work Council in Germany, Shingikai in Japan are prominent examples of such corporatist coordination. At the firm level, employer and labor representatives sit together and collectively decide matters concerning productivity, employment, and benefits (Streeck 1995; Lee 1995). Micro-corporatist coordination usually is not mutually exclusive to macro or meso-corporatist coordination. In cases like Germany, we see meso-corporatism and micro-corporatism coexist in the political economy.

III. Accounts for the Varieties of Business Interest Organization

In the first section of the literature review, I laid out the collective goods that business actors pursue and in the second section I enlisted the differences of business coordination. The question then is why are there different forms of interest representation? What accounts for the differences of interest representation? In this section, I will explore the mainstream explanations of the differences in business interest organization, with the focus in organizational strength of labor and the different state activities.

1. State action and Business Interest Organization

The first reason that accounts for the variance of organizational structure and strength is that different countries historically experienced a different form of state

intervention in interest group formation. Political scientists like Martin, Schneider, and Swank suggest that the state actors can lower the organizational cost and provide selective benefits to keep staying in the association. As Olson suggests, there is an organizational cost in collective action. Forming the organization in the beginning is costly. Besides, there are costs of communication, costs of bargaining, or simply costs of searching (Olson 1965). State and party actors can lower the organizational cost by directly involved in mobilization and communication among business actors.

i. The state and political parties as a mobilizer of the business class

First, state actors in the developmental state would actively organize businesses to gather necessary market and industrial data and information for developmental plans. The state officials believe that it is too costly to collect the economic data all by the bureaucrats themselves. Instead, the cost of organizing business is lower and the payoff for the mobilization effort might be more enduring in the long term.. Thus, state actors would actively organize business associations and lower the organization cost of business associations (Schneider 2004; Noble 2000). Thus the differences in business associations will depend on the economic conditions and political interest of the developmental state.

Besides, political parties would contribute to lower the cost of business associations in exchange for electoral support. According to Swank and Martin, in a parliamentary democracy, the rightist party usually has the incentives to organize the peak business associations because by doing so, it would create a long-term

electoral base for the party. Political parties, in particular the rightist party would lower the organizational cost of the organization of business associations (Martin and Swank 2008) Such mechanism works well in a proportional representational electoral system, where the political parties are not always catch-all parties but instead focus on a particular group of voters.

Party politics, however, is a double-edged sword. Political parties in a proportional representational electoral system tends to be a cohesive force in the creation of business association, yet in a majoritarian system, party politics tends to be the divisive force. In the case of the United States and the United Kingdom since parties are catch-all parties, once a central business association is created by one party, the opposition party would create another competing organization so to have a share of the votes among the business class (Martin and Swank 2008). The political parties in a democratic system could lower the organizational cost of business associations, yet it could also alter the organizational strategy of businesses, making interest groups politics pluralistic and fragmental.

ii. State as a provider of selective benefits

Not only can the state facilitate business interest organization by lowering the organizational cost, it can do so by providing selective incentives to motivate businesses to join and stay in the business associations. As Olson suggests, although there is a common interest among members for the collective benefits, but there is no common interest to pay the cost. Firms as utility maximizers, tend to free ride and evade the cost of the collective actions. Because of such free-rider problem,

collective actions are possible only when selective incentives are provided. (Olson 1965).

By providing selective incentives to members of the business associations, the state increases the incentives for firms to join the business associations, and thus increased the representational power and organizational capacity of the business associations. For example, the state can limit state subsidies, import rebate, or other benefits only to members of business associations, or provide an exclusive opportunity for business-state talk to the association (Schneider 2004). The supply of these collective goods in these cases is not limited in the eyes of the business association, since the association is not the provider of such benefits. Under this mechanism, the state can alter the incentive scheme of business actors to join and participate in business associations.

By lowering organizational costs or providing selective benefits to members, the state actors could boost the membership and participation of business association. The politics of economic development or party competition can play an important role in the formation of business associations.

iii. State-business confrontation as an incentive for business organization

As Schneider suggests, sometimes the state itself is direct cause of business mobilization. Sometimes, the business sector is forced to organize to counteract the business-hostile policies like expropriation of private property, unfavorable corporate taxes, and pro-labor wage policies (Schneider 2004). When the business community believes that their interest is at stake, they organize pressure groups to

fight for their interest, and invest in the organizations to improve their public image in the media (Schneider 2004; Windmuller and Gladston 1984).

iv. State as a provider of common goods for businesses

However, the state can diminish the incentive for business to organize by directly providing collective goods that the business sector wanted. This is particularly the case in newly-industrializing countries (NICs) in East Asia. During the developmental period of these countries, the state plays an important role in guiding and directing the economic development and industrialization of the nation. Wade calls the strategy a “market governing” strategy. The developmental state has an embedded and autonomous bureaucratic apparatus and it is active in planning, allocation of financial resources, socialization of investment risk in industrialization (Wade 1990; Evans 1995; Amsden 1989; Woo-Cumings 1999). The state is also involved in price and market distortion to create favorable conditions for industrial development (Amsden 1989). The state artificially alters the price of factors of production like labor and capital by repression of labor movement and workers’ wage, or by manipulation of interest rates, exchange rates.

The developmental state is also deeply involved in providing common goods for industrialization. For example, the state is involved in technological transfer, standardization, control in market entry, and skill formation (Wade 1990, Amsden 1989, Woo-Cumings 1999, Noble 2000). Such provisions market simulating, thus are beneficial to the economy and the business community. Yet the provision of these common goods also pre-empted the efforts of collective actions of the

business community. Organization for market supporting and market complementing collective goods might not be necessary under an effective developmental state, with an embedded and autonomous bureaucracy.

As it is shown above, state actors and political parties can facilitate the formation of peak associations by lowering the organizational costs and providing selective benefits for the business associations. Yet the mobilization effort is conditional to the developmental interest of the state and the electoral interest of the party. Political actors do not always have the incentives to create an encompassing business organization. Besides, the state sometimes creates negative incentives for businesses to organize. Infringement on private property, pro-labor policies, or the purge of the business class can all pressure the business sector to invest in business association to fight for their interest. Yet on the other hand, when the state is too accommodative to the industrialists, the business community might lose incentives to participate in business association since the collective goods are directly provided by the state. Nevertheless, political actors had an important impact on the formation of encompassing business associations. The policies and activities of the state shape the incentives for businesses to organize and alter the cost and benefits of collective actions of the businesses.

II. Organized Labor and Business Association

Another reason that business organizes is to confront organized labor. Scholars like Stephens suggest that the strength of labor organization is correlated to the

solidarity of employers (Stephens 1979). Crouch suggests that historically, encompassing business association emerged in countries with stronger and more unified labor movement and unions (Crouch 1993). When labor is strong and united, the working class has more bargaining power and could interrupt production to a greater extent. Workers demand higher wages, benefits, and better working conditions, and threaten to strike when employers fail to meet their demands.

Employers organize to collectively confront strikes and conduct collective bargaining with the labor unions. Employers organize to create consensus on labor policies and share labor market information. Besides, it represents the employers to collectively bargain with the state and with the labor unions on issues like wages, benefits, labor laws, and unionization (Gladstone and Windmuller 1984).

The strength of labor militancy varies in different countries because of different historical reasons. King suggests that the ethnic cleavages could create a divided working class (King 2005). Manow and Van Kersbergen suggest that the religious difference in the society could undermine the solidarity of the labor movement (Manow and Van Kersbergen 2007). Power resource theorist like Korpi suggests that the strength of leftist parties would affect the organizational strength of labor (Korpi 1980). One can enlist more historical, social, and political reasons accounting for the different strength and social impact of labor activism in different countries, but the key issue here is that the strength of organized labor shapes the incentives of the businesses to organize and conduct collective actions.

The incentives for businesses to coordinate and organize employers association depend, as suggested above, on the strength of organized labor. The stronger the union movement is, the more likely the industrialists of the country to organize themselves to confront labor militancy and conduct collective bargaining. We see that besides the political factors, the organizational strength of labor accounts for the difference in organizational strength and structure of business interest organization.

III. Other Stimulating or Inhibiting Factors in the Creation of Business

Associations

As Olson suggests, all groups organize to further the interest of the members and the collective good were the determinants of the creation of business associations. Yet there are factors that facilitate or inhibit the condition and possibility of the creation of business association. These factors act as catalysts, or conversely inhibitors, but not determinants of the formation of singular peak business associations. For example, Manow and Van Kersbergen suggests that the religious differences among catholic and protestant populations in certain European states undermined collective actions and the efforts to create a united peak business association (Manow and van Kersbergen 2009). King suggests that ethnic cleavages in the United States debilitated efforts of collective actions (King 2005).

Besides social cleavages, Tolliday and Zeitlin suggest that the degree of regional diversity in national economies could influence the organization of business associations. High level of economic diversity complicates organization, since there

is less common ground for businesses of different sectors. So economic diversity in the national political economy serves as an inhibitor for centralized peak business associations (Tolliday and Zeitlin 1991). Similarly, polities with central unitary systems are more likely to have all-encompassing business associations, since economic activities and policymaking tends to be more centralized in these polities, while polities with federalism and strong regional authority are more unlikely to have all-encompassing business associations since business activities are more decentralized and national coordinative efforts were more difficult (Martin and Swank 2008).

On the other hand, there are factors that stimulate the formation of centralized business associations. Historical institutionalists like Thelen suggest that existing pre-industrial institutions that facilitate cooperation could enhance the chance of industrial coordination. For instance, institutions like guilds and rural cooperatives facilitate the sectorial coordination, since the conflict between employers and employees were not distinct (Thelen 2004). Besides, the existence of industrial-based unions also played an important role in the formation of consensus-based business associations, since industrial unions create the capacity and interest to cooperate with employers in training and wages (Thelen 2004; Swenson 2002).

To sum up, there are two strands of thoughts regarding the origins of business associations. The first is concerned with the cost and benefits of collective actions. Common goods like standardization, skill formation, exchange of market information and technology, consensual labor relations, and managed competitions are all important incentives for the formation of the encompassing peak business

association, while the cost of monitoring, communication, rule-enforcement creates cost for collective actions. Political scientists emphasize the importance of a third party, mainly political actors, in the organization efforts of the business sector. The state, political parties, and labor, they argue, all play important roles in mobilizing business interest and organizing central business associations.

In the following case studies, we will examine the transformation of the business associations of the two newly-industrializing countries, South Korea and Taiwan. We will trace the pattern and trends of its development on the one hand, and examine the possible factors of difference on the other hand. We will emphasize on the efforts to organize for economic benefits, collective actions against labor movement, and the impact of party politics and democratization on the impact on the organization of business associations.

Case 1: Taiwan

Taiwan and the Transformation of Business Associations

The following case study is divided into two parts. In the first part, I will explore the initial conditions of business interest associations in the authoritarian regime in Taiwan, in particular, I will explore how the state corporatist structure in Taiwan under the KMT regime and how the state-led economic development affected the institutional patterns of business interest organization in Taiwan. I suggest that the quasi-Leninist KMT party-state had deep penetration and control over the business organizations and labor unions, from the top peak associations to the enterprise

levels below. The corporatist structure of business associations and labor unions enhanced political legitimacy of the KMT regime but served little economic functions. Economic coordination took place mainly in the sectorial associations like the Taiwan Electrical Appliances Manufacturer Association (TEAMA) and Taiwan Footwear Manufacturers' Association (TFMA) (Doner and Schneider 2000; Noble 1998).

I suggest that in the party-state authoritarian regime there was a division of labor between state-owned enterprises and large enterprises-dominated upstream industries on the one hand, and small-and-medium-sized downstream enterprises on the other hand. State-owned enterprises are largely managed and controlled by Mainlanders while the SMEs are owned by the local Taiwanese businessmen. Such economic division of labor exacerbated the ethnic division, making the formation of the united peak business association more difficult.

In the second part of the case study, I will explore the transformation of business interest organization in Taiwan under economic liberalization and democratization. In the second part of the study, I will explore how state, party, business, and labor actors react to these changes, and how these interactions shape the structure and organization of business association. I argue that political liberalization and the formation of the opposition party intensified electoral competition, incentivizing the ruling KMT to distribute particularistic economic benefits in exchange for political loyalty and support. Such political exchange further undermined the possibility for the creation of an encompassing business association. Also, party politics and the political division on issues like Taiwanese self-reliance and Taiwan-Mainland relations created new division in the society and within the business class. With the

emerging political bipolarity, the KMT and the DPP both courted and established their party-affiliated business associations. Party politics created a divisive force in the business class in Taiwan.

Lastly, I argue that unlike the case in South Korea, the labor militancy in Taiwan was not strong enough to pressure the employers to organize and form a centralized employers association to battle against labor activism. Labor activists focused more on the creation of independent unions than on nationalized collective bargaining. Thus we do not see a labor as a negative incentive for employer solidarity.

State corporatism under the rule of the quasi-Leninist KMT Party state

The KMT central government landed Taiwan and treated Taiwan as a military base to fight back and retake Mainland China. Taiwan, unlike other parts of Mainland China, was under Japanese colonial rule in the early 20th century. After the Japanese surrendered, the KMT-led Republic of China took over the island in 1945, and three years later, the KMT central government from the Mainland retreated to Taiwan after its defeat by the communists. Martial law was imposed upon the Taiwanese people. The retake over the Mainland was not successful till the present day, and Taiwan was ruled under authoritarian granted by the martial law from 1949 to 1988, and the polity was controlled by the KMT party until 2000, when the DPP opposition took power (Roy 2002; Cheng 1993).

After the defeat of the Civil War in 1949, the central government of the Republic of China retreated to Taiwan, and the ruling party, the Nationalist Party, or KMT brought the national bureaucracy and military with them (Cheng 1989; Cheng

1993). The KMT also brought the system of social control and mobilization was brought from the Mainland to Taiwan. As Cheng suggests, the KMT was a quasi-Leninist party and the party was hierarchically structured, and its branches scattered all parts of society (Cheng 1989). Under such political system, all social groups had to be registered under the party, and social organizations were overseen by the Department of Social Affairs of the KMT party and monitored by the intelligence agencies (Cheng 1989). Civil society was organized under the state corporatist structure, where organizations were singular, non-competitive, hierarchically ordered, and monitored and manipulated by the state (Cheng 1989; McBeath 1998).

Businesses, the subject of our concern, were also incorporated in the state corporatist structure. All Taiwanese businesses were required to join one of the two peak associations: the National Federation of Commerce (NFC) or the National Federation of Industries (NFI). The National Federation of Industries dated back in 1942, formed by industrialists in the Mainland. Similarly, the National Federation of Commerce was a legacy of the KMT regime in the Mainland. The National Federation of Commerce was founded in 1946 and was moved to Taiwan soon after the defeat of the KMT. The NFI consisted of mainly industrialists and manufacturers, while the NFC consisted of mainly traders and merchants. Later, it also included businessmen from the service sector. Like all other social organizations, the KMT Department of Social Affairs oversaw and monitored the activities of the business associations. The party not only monitored the activities of the business associations, it also controlled the leadership of the business interest organizations. The chairperson of

the peak associations were always handpicked by the supreme leader of the KMT and were always in the Central Committee of the KMT (McBeath 1998; Fields 1997).

The influence of the Leninist party-state covered all levels of society, including labor. The KMT-sponsored China Federation of Labor (CFL) was the only authorized peak labor unions in Taiwan. The president of the CFL, similar to that of the NFL and NFC, was always handpicked by the party leadership and was usually part of the party central committee (Ho 2006). Below the national level, there were the regional level unions, for example, the Kaosiung Regional Union. Regional unions had little representational power and influence over the labor policies, but they were obliged to pay dues to the central peak association. Below the regional unions, there were the industrial unions and occupational unions. Industrial unions were unions of the entire industry, however ironically, collective actions and wage bargaining were allowed to take place only in the enterprise level. Besides, only SOEs and selective unions were allowed to form industrial unions, while unions in the private sectors were mostly occupational unions (Ho 2006; Hsiao 1992). Union leadership of all levels was selected by the KMT Department of Social Affairs. In general, the unions enjoyed very little autonomy and representation.

State-led industrialization and the divide between large enterprises and SMEs

The KMT state initiated the industrialization project soon after it consolidated power on the island. In the 1950s, the KMT regime adopted the import-substitution strategy of industrialization. Extensive quantitative restrictions on imports and high tariffs were enforced to cultivate domestic industries and manufacturing. Using US

technology and financial aid, the Mainlander capitalist who followed Chiang to Taiwan started textile factories on the island. The regime was also active in grooming industries like plastics, artificial fibers, cement, glass, fertilizers, and plywood (Wade 1990). Besides benefiting the well-connected Mainlanders, the regime created economic opportunities to co-opt local capitalists. For example, the regime invited Wang Yongqing, one of the notables in Taipei and Koo Zhenfu to develop the cement industry. (Wade 1990) For industries that were more closely related to the military, the regime chose to establish them through state-owned enterprises, for example China Steel, China Shipyard, and China Petrochemical (Chang 2008; Huang 2004). In the import-substitution era, the KMT regime developed numerous upstream industries through state-owned enterprises and well-collected Taiwanese-owned large-enterprises.

In the 1970s, the international economic crises forced Taiwan to upgrade its economy. In response to intense competition with other Asian Tigers, European and American protectionism, and the skyrocketing energy prices, Taiwan shifted its industrial focus on non energy-intensive, capital and technological-intensive industries like semiconductors, computers, telecommunications, and machine tools, robotics, and biotechnology. It was precisely at this time when local democratic movement started to grow. The state chose to develop these industries with local SMEs because the regime wanted to keep the local capitalists from expanding on the other hand, and co-opt capitalists for political stability on the other hand. The state facilitated the development of these industries by establishing state-sponsored research labs and improving the quality of higher education (Wade 1990; Wu 2004).

Throughout the process of rapid economic development under the KMT authoritarian party regime, we see there was a division of labor between enterprises of different origins and different forms of ownership was developed. At the top there were the state-owned enterprises. They occupy the heavy industry sectors, as well as finance and other service sector (Huang 2004; Chang 2008). The second level is the large enterprises. It consists of the well-connected capitalists and dominated the non-military upstream industries and domestic consumption market (Huang 2004). At the bottom, there were the small-and-medium sized enterprises. Unlike Korea, it was the SMEs that contributed to the majority of export (Huang 2004; Wu 2004).

Although the SMEs were the major contributors of the export-led industrialization in Taiwan, they did not benefit from the state-controlled financial system. Like South Korea, the banking system was nationalized before the export-led industrialization took off. The KMT regime took over the Japanese-owned banks in the colonial period after the Second World War and brought in the state-owned commercial banks from Mainland China to Taiwan after the KMT's defeat in the Mainland. Yet as scholars suggest, the KMT regime intentionally held credit from the local Taiwanese capitalists because the Mainlander-dominated regime highly distrusted the local capitalists, fearing that the empowerment of the local elites would endanger the minority government on the island (Cheng 1993). Besides, banking procedures and rules for the state-controlled banks were very strict and conservative because senior party leaders and state officials put macro-economic stability as the top priority after the bitter memory of hyperinflation in the

Mainland. Bank employees were held personally responsible for the bad loans, making bankers extremely risk-averse and cautious, and as a result the SME were discriminated against (Fields 1995). Regardless of their contribution to the export-led growth, the Taiwanese owned SMEs were chronically short of capital (Fields 1995).

On the other hand, the SOEs and the large enterprises had a totally different status in the economy. Because of their connections in the government, they were well-funded and could have better deals in the state-controlled banking system (Cheng 1993). Besides, because of their size, they had alternative methods of corporate finance, such the stock and bond market (Fields 1995). We see that the SOEs and the large enterprises had greater economic advantage compared to the SMEs.

We see that there was a great chasm between the SOEs and LEs on the one hand, and the SMEs on the other. First, the two groups were divided based on ethnic lines. The SOEs and many of the large enterprises were managed or owned by the Mainlanders and KMT-loyal local elites. They had little kinship network with the majority of Taiwanese, and thus there were little interaction other than necessary business transaction (Huang 2004; Wang 2004). Second, the two groups were divided based on economic status and interest. The SMEs were mainly exporters competed in the international market. They were the price takers and had little voice in the domestic market. On the other hand, the SOEs and the LEs were oligarchies or even monopolies in the domestic market. They enjoyed great economic privileges and had greater voice in the market (Huang 2004; Wang 2004; Fields 1995). With different market conditions, there was little common interest

between the two groups. The divide base on ethnicity and economic status made the nation-wide coordination difficult in the first place.

Therefore, even though all enterprises were nominally registered under the state-corporatist structure of interest representation, in reality they were little coordination between the two groups. Although business from all levels were included in either of the national peak associations, the two peak associations served little economic functions, partly because of lack of autonomy. On the top level, the state-owned enterprises were managed directly by the Minister of Economic Affairs. On the second level, the large enterprises all joined the National Council of Commerce and Industries. The organization was established in 1951, facilitated by the state. The NCIC consisted of the largest business groups of the nation. The NCIC created a platform for the big industrialist to have access with the public officials, including the top bureaucrats in the powerful Council for Economic Planning and Development. The NCIC also held regular breakfast meetings with the economic bureaucrats (Fields 1997).

At the lower level, the National Association of Small-and-Medium Sized Enterprises (NASME) created in 1972, was inefficient until 2000. Because of geographical and numerical difficulties, there was little cross-sectorial coordination among the SMEs. Because of the Mainlander-Taiwanese differences, there were little non-market coordination between the SMEs and the large-enterprises, or between the SMEs and the SOEs. Coordination took place largely in the sectorial level. For example, Taiwan Electrical Appliances Manufacturer Association (TEAMA) successfully pressed for a coordinated tariff policy that protected its members

while keeping them on their toes (Doner and Schneider 2000). Among the SMEs, there were strong sectorial associations, for example as mentioned, the Taiwan Electrical Appliances Manufacturer Association (TEAMA) and Taiwan Footwear Manufacturers' Association (TFMA) (Doner and Schneider 2000; Wade 1990).

Unlike the conglomerate business groups in South Korea, there were a division of labor between the upstream SOE and LEs on the one hand, and the SMEs on the other hand. Because of the difference in kinship network and lack of common economic interests, there were little interactions and coordination between the two groups of enterprises. The divide in business made the nation-scale coordination difficult even after the fading of the developmental state and the retreat of social control by the KMT ruling party.

Changes in the 1980s: Facing the Currents of Democratization and Economic Liberalization

Although the KMT party and much of its state-corporatist has remained up to this date, the power relations between the party-state and society has changed drastically since the 1980s. In the 1980s, there were four major changes in the political and economic environment that might create conditions for changes in the business-state relations and the patterns of business coordination in Taiwan. First, a local democratic movement started in the 1970s, followed by the diplomatic crisis of the Republic of China regime was emerged. Students and the middle class formed the Dangwai, or outside the party and call for free elections and the self-determination of the Taiwanese people (Roy 2003). Gradually, in 1987, martial laws

were lifted and free elections at the Legislative Yuan took place in 1991, and free presidential election took place in 1996 (Roy 2003). The opposition party, the Democratic Progressive Party, was formed in 1985, and started to compete with KMT for electoral support in local and national elections. KMT was gradually transformed from a quasi-Leninist party to a democratic competitive party. The control of the party-state over social organizations was weakened after the martial law has been lifted and the party gradually retreated from the state corporatist structure (McBeath 1998; Cheng 1989). The Department of Social Affairs of the KMT no longer selected the leadership nor monitored the activities of the business associations (McBeath 1998). With such changes, we would expect that with the retreat of the party from civil society, business actors would take over the existing corporatist infrastructure and the system would gradually transform itself into a societal corporatist structure.

Second, we see the boundary between the Mainlanders and the local Taiwanese have faded in the course of economic development. (Johnson 1992) The traditional boundary between the Mainlander political elites and well connected and the local Taiwanese businessmen had been fading. Since the 1980s, local Taiwanese business groups grew. Many became as powerful as their Mainlander counterparts. Besides, intermarriage between Mainlanders and Taiwanese became more common, according to Johnson (Johnson 1992). The gap between Mainlander and Taiwanese has narrowed. We would expect the closing of the ethnic gap would facilitate the transition from a state-corporatist system to a societal corporatist system.

Third, the financial market in Taiwan was opened in the early 1990s. Regulations over capital, interest rates, and exchange rates have largely been released. Foreign banks and private domestic banks were allowed to enter the Taiwanese domestic market and compete with state-controlled commercial banks (Chang 2008). Besides, the state-owned banks were gradually privatized. The Ministry of Finance no longer had direct control over the financial institutions, and thus the Taiwanese businesses were no longer financially dependent on the state (Chang 2008). With the economic liberalization, we would expect the greater financial autonomy would also facilitate the creation of the autonomous business associations.

Fourth, following the current of democratization and the lift of the martial law, there was an outburst of labor movement in Taiwan. According to Hsiao, strikes, labor disputes, and creation of independent unions rose rapidly (Hsiao 1992; Ho 2006). On the other hand, the manipulation of the KMT party over labor has diminished. We would expect that the business, because of such changing labor relations, would organize themselves to seek collective actions in response to changing industrial relations.

Given these changing conditions, we would expect that the Taiwanese businesses would retain the corporatist structure and gradually transform into a societal corporatist structure. We would expect that there would be an institutional continuity and the changes in political and economic environment would favor the transition from state corporatism to societal corporatism. However, such transformation did not happen as expected. Instead, the structure of business organization has gradually become pluralist and competitive. The institution of

collective wage bargaining did not evolve. The corporatist state-labor-business tripartite commission was not institutionalized. The initial state corporatist structure in the authoritarian era was not translated into a societal corporatist structure but was degenerated into a mere pluralist system.

The question then is why did Taiwan move to a pluralist path, despite the existence of a corporatist organizational framework? Why didn't we see a transition from state corporatism to societal corporatism like what we see in Germany and Japan? In this section, I argue that there are three factors that lead Taiwan to a pluralist path. First, because of party politics, the state failed to provide selective benefits for the business to retain in a consolidated organization. Instead of providing selective benefits to keep businesses in an encompassing peak association, politicians courted individual business groups and thus lowered the opportunity cost of collective lobbying and bargaining in the business association. Second, because of party politics, there was a tendency for each political party to create their own party-affiliated peak business association, thus further splitted the business community. Third, the disorganized labor movement did not create a pressure for the Taiwanese businesses to organize and unite for collective measures against labor militancy. With these reasons, I argue that the Taiwanese business interest representational system did not smoothly undergo a transition from a state-corporatist system to a corporatist system like that in Japan and Germany.

Democratization and the realignment of state-business relations

When the martial law was still in effect, national elections were not opened to the Taiwanese. The KMT government identified itself as the government of the Chinese nation, and thus the Legislative Yuan should consist of representatives of the entire nation. Thus, the elderly representatives whom the KMT émigré government brought with them served until the 1989. Between 1949 and 1989, there were no national elections for the legislative branch (Roy 2003; Huang 2004; Hood 1997). Similarly, under the martial law, the president could remain in power until the “emergency” was over. Thus, the presidency was never opened to public election throughout the authoritarian regime¹. Elections were restricted to the local level. The KMT regime allowed local elections because the party treated local elections as a means to contain and co-opt the local elites, where they cultivated at least two factions in the locality, and constantly balance the power between the factions (Cheng and Chang 2001; Hood 1997). The local branch of the party recruited members from all factions, and balanced the power and influence through patronage (Cheng and Chang 2001).

The political situation had changed soon after the opposition party was created and national elections were opened to competition. The KMT by then had to compete with the DPP for the support of local Taiwanese voters, consisted of 85% of the total population in 1989. The DPP opposition adopted a strategy of invoking the Taiwanese identity and preaching liberal political ideology, which proved to be extremely effective in local elections (Cheng 1989; Cheng 2001). With intensified

¹ Unlike South Korea, where there was rigged elections throughout the military dictatorship

electoral competition, the KMT courted the local business groups with greater economic rent and benefits in exchange for political support and loyalty. The KMT encouraged local business groups to join the KMT party and run for local offices or for legislators in the Legislative Branch. According to Huang, in the 1992 legislative election, there was 47.20 % of the legislator who had family connections with business groups. (Cheng and Chang 2001; Huang 2004) Democratization altered the power structure in Taiwanese politics, making state-business collusion in its historical height.

Initially, with the exception of a few well-connected business families, most Taiwanese businesses were underrepresented in the political and policy realm. The KMT Mainlander regime, as Cheng suggests, was suspicious about the local Taiwanese capitalists. The regime deliberately distanced itself from the majority of Taiwanese businesses (Cheng 1993). However, the opening up of elections also opened a path for individualistic bargaining and thus undermined the possibility of the creation of consolidated business association at the national level.

The Politics of Economic Liberation and Privatization of State-owned Enterprises In Taiwan

The establishment of the DPP opposition not only created greater electoral competition in the political system, it also created a consistent force to challenge the economic oligarchy of state-owned enterprises. Following the increasingly popular neoliberal economic thoughts, DPP politicians advocated a liberalization of the domestic market and the privatization of the state-owned enterprises (Wang 2004;

Roy 2003). The regime was also pressed by foreign competitors to open up the domestic market, especially in financial service. Under such pressure, the KMT gradually and limited opened the domestic market and privatized parts of the state-owned enterprises (Chang 2008).

However, there were political calculations behind the privatization of the state-owned enterprises. Democratization created a double challenge to the KMT. On the one hand, the intensified elections demanded greater financial resources for campaigns or even bribing, yet on the other hand, democratization increased the transparency of political procedures, making the transfer of funds from the government to the party apparatus increasingly difficult. The separation of state and party created great financial challenges to the KMT regime under Lee. The KMT could follow its Japanese contemporaries by supporting electoral campaigns through political donations. Regardless of the donations that KMT politicians receive from the private sector, senior party leaders were resistant to the idea of total dependence on the business sector. Under such conditions, the KMT regime used the privatization of SOEs as a means to support electoral competition in the local and national electoral campaigns (Chang 2008; Huang 2004).

On the one hand, the government released the shares of the SOEs to the security market, yet on the other hand, the party set up investment companies and bought back these shares. For example, the KMT established investment companies like China Development, Jinghua Securities, Huaxin Bank to buy back the shares of

former SOEs² (Chang 2008). As Huang suggests, the expansion of party-owned assets was multi-dimensional (Huang 2004). It involved acquisition from real estate, to manufacturing industries to high-tech sector. The process of privatization of the SOEs blurred the distinction between the party and the business. Business that had close business connections with the party-owned enterprises could have favorable business opportunities and political connections. The privatization of state-owned enterprise and the separation of party and state created the new opportunity of rent-seeking for politicians and businessmen. The KMT party, abusing its political power, undermined the possibility of the creation of a consolidated central business association by providing selective benefits not to the business associations but to individual business groups and companies.

Although the peak business associations in Taiwan gained greater autonomy after democratization, the state corporatist structure was not successfully transformed into a societal corporatist structure. The business sector in Taiwan, instead of retaking the corporatist structure that the party state created was busy seeking rents and individualistic benefits that the KMT government offered. Party politics and the growing electoral politics acted as a divisive force in the transformation to a corporatist system in Taiwan.

The negative effect of electoral politics on business unity is seen in Chen Shui Bian's regime. In 2000, the opposition DPP party, won the presidential election and Chen Shui Bian became president. Soon in 2001, the DPP won a majority in the Legislative Yuan. In the early 2000s, the DPP took control of both the executive and

² For details, see Chang 2008, Huang 2004

legislative in Taiwan (Wang 2004; Huang 2004). During the electoral campaign, Chen and his party severely criticized the money politics that Lee Teng-hui regime practiced, and promised a clean and uncorrupted government. The DPP criticized the rent-seeking business groups and took a rather anti-business attitude. However, soon after his inauguration, his government started to patronize businesses groups and establish political support in the business class. For example, he courted Zhang Rongfa, a Taiwanese businessman who had close ties with the former president and had strong indigenous sentiments, and supported him to run for the chairman of China National Association of Industries and Commerce (Huang 2004). Besides, he promoted the National Association of Small-and-Medium Enterprises. According to Huang, Chen and his government began to alienate and marginalize the influence of the KMT dominated NFI, NFC, and the NCIC. Chen began to mention the peak associations as the Big Six, instead of the Big Three, which included the DPP-supported NASME and CNAIC³ (Wang 2004; Huang 2004). During his terms, business associations began to compete for memberships and influence. Business representation became increasingly politicized. Party politics continued to be a divisive force in business representation. The political interest of politicians overruled the economic possibility of a coordinated business sector in Taiwan. Business associations became increasingly pluralist, competitive, and fragmental.

We see that party politics as Martin and Swank suggest created a divisive force to the unity of the business class, making the transition from state-corporatism to

³ The sixth is the Taiwan Electrical and Electronics Association, since it is not a peak business association. It is not concerned in this analysis

societal corporatism more difficult. Intensified electoral politics incentivized the political parties to seek support of the businesses, in turn polarizing and politicizing business associations, making the organizational effort of business actors more difficult.

Labor in Taiwan: Too weak a force for the employers to unite?

We would expect, as the literature suggests, that the labor movement in Taiwan should have created incentives for the businesses to organize. However, we do not see that labor movement having a great impact on the strength and structure of business interest organization. The labor movement in Taiwan was too weak and particularistic that it failed to pressure the businesses to organize. Moreover, activists have spent greater effort on independent unionism than on collective actions. It is because of these reasons that the labor movement in Taiwan in the 1980s did not create an incentives for the Taiwanese businesses to organize.

Labor politics in Taiwan was also under great transformation in the 1980s. The lift of the martial law in 1987 and the democratization in the 1990s indeed created conditions for a more autonomous labor unionism and activism. According to Hsiao and Ho, the number of industrial unions increased from 1160 in 1987 to 1354 in 1990. (Ho 2006) Labor dispute has also increased greatly from 1981 to 1988, there were 10,441, compared to 4048 cases between 1971-1980. In 1989, alone, there were 1,009 cases of labor disputes (Hsiao 1992).

When the martial law was lifted, workers grasped this opportunity to organize, yet instead of immediately organizing strikes on the streets, the Taiwanese labor

activists chose to focus on organizing autonomous unions. They created autonomous unions in firms where they had been no unions during the authoritarian regime and attempted to control the unions in large SOEs and large firms where union leaders were once predominantly KMT members (Hsiao 1992; Ho 2006).

Despite the effort to create inter-union solidarity, the creation of a unified cross-sector independent peak association has been largely unsuccessful. The labor movement like that in South Korea, resulted in the division of the labor force, thus weakening the bargaining power of labor at the national level. For example, in September 1987, the Brotherhood Union was formed in December 1987 to strive for year-end bonus. Similarly, in April 1988, the Association of Union Cadres in southern Taiwan and the Kaohsiung Workers' Alliance were created to strive for solidarity among workers in the south and in the industrial city Kaohsiung (Hsiao 1992). The National Federation of Independent Trade Unions, which later became the ultimate competitor of the state-sponsored Chinese Federation of Labor, was formed in May 1988 (Ho 2006). The mobilization efforts at the national level did not result in the replacement of the state-corporatist CFL, but what were resulted in was the coexistence of the old and the new institutions.

The unions organized strikes and demonstrations, but all of them failed to mobilize cross-sectorial and inter-regional support. For example, the workers in Far Eastern Chemical Fibers held a strike in 1989 but were swiftly suppressed by the police. In 1992, the Keelung Bus Company Union organized a strike but the police again suppressed the strike and bus drivers and couches from other areas were

transported to break the strike (Ho 2006). The police remained constantly supportive to the business and in both cases. Businesses in Taiwan were not as pressed by the labor movement as their Korean counterparts because of such state support. Besides, demands of the striking workers were particularistic and failed to mobilize national labor demonstration. Besides, legislations favoring employers were passed without significant labor opposition. For example, the Labor Union Law, which deregulate the union membership and allows parallel unionism in the same firm, was passed, including the Labor Dispute Law and the Labor Standard Law (Ho 2006). We see that the labor militancy in Taiwan was too weak to gain political bargaining power in the polity. It had little power to alter the incentives of for the business to organize and conduct collective actions.

We see the efforts of labor activists in Taiwan focused more on union organization than on demonstrations and strikes. With little doubt, the activists had reasonable success in union organization. Numerous regional confederations of independent unions were created in DPP controlled counties and municipalities (Ho 2006). However, there were no cross-sectorial efforts of collective bargaining and general strike to show solidarity of the working class. With most labor activism effectively solved within the boundary of the enterprises, employers in Taiwan had little incentives to invest in national-wide business association to settle labor disputes and handle collective bargaining.

Taiwan and South Korea responded to the forces of democratization and economic liberalization very differently. Democratization in Taiwan created a strong

opposition party competing with the incumbent KMT party-state and a greater state-business collusion. The state hostility towards business or the society moral censure, which played an important role in creating incentives for business organization, did not have any impact on business interest organization in Taiwan. The liberalization of the economy and the privatization of the state-owned enterprises provided more autonomy to the business sector, yet in the process, the state provided individualistic benefits to individual firms but not selective benefits to the central peak association.

In short, party politics plays a more important role in shaping the incentives of the businesses to organize, making it more difficult to create an encompassing peak business association. Party politics became a divisive force of the development of business associations in Taiwan. On the other hand, labor militancy in Taiwan was too weak to pressure the businesses to organize and coordinate. Strikes in Taiwan were unorganized and particularistic. The efforts of labor activists were focused more on the formation of independent unions. In contrast to party politics, the labor movement in Taiwan did not have a profound impact on the incentives of the businesses to organize.

Case 2: South Korea

The Transformation of the Korean Business Associations

The case of the transformation of South Korea will follow a similar structure as that of Taiwan. In the first part, I will explore the business and labor interest organization under the military authoritarian regime in South Korea and examine

the business-state relations under a chaebol-led industrialization project during the Park Chung Hee era. I suggest that social interests in South Korea were also had the formal state-corporatist organizational structure, yet the power dynamics was different from that in Taiwan. The South Korean developmental state adopted a chaebol-led industrialization strategy, thus the state-business relation in South Korea was closer than that in Taiwan. The labor unions were controlled and manipulated not by the state but by the firms, and the chaebols since 1961, had an encompassing and relatively autonomous business association, the Korean Federation of Industries. These conditions, I argue, created more favorable conditions for an autonomous, encompassing, and more corporatist business organizational structure in South Korea in the post-developmental era.

In the second part, I will examine how state, business and labor actors responded to the forces of economic liberalization and democratization and how these forces reshaped the strength and organization of the business associations in South Korea. I argue that the dynamics of economic liberalization was played out differently in South Korea and Taiwan. The growing current of democratization in South Korea since the 1980s had pressured the state to curb the oligopolistic chaebols in Korea. Politicians, in response to popular pressure and economic realities, pursued anti-trust and corporate restructuring policies that irritated the business community in general. With a general disgruntlement of social inequality and concentration of wealth, we do not competition for business support among the political parties, yet we see a greater solidarity among the chaebols in response to the anti-trust and corporate restructuring policies. The actions of the state negatively incentivized the

business to strengthen their peak associations and conduct a variety of collective actions.

Second, I argue that the growing labor militancy forced the chaebols to organize and strengthen the employer association of the chaebols. In 1987, one of the greatest wave of labor strikes occurred in South Korea. With the state backed-off from the strike, the Korean businesses had little choice but to strengthen their employer association to combat labor militancy. The empowerment of labor, I argue has caused the large businesses in South Korea to organize and conduct collective actions.

Social Control and state-corporatism under the Korean military regime

After the Second World War, the Korean peninsula was divided into two. The North was under the control of the Soviet-supported communist regime, while the south was controlled by the US-supported authoritarian regime. In the South, despite the promise of democracy, there were great suppression and policing. Labor unionism was suppressed and pre-empted. The authoritarian regime in South Korea retained under democratization in the 1990s.

Most parts of the civil society were organized under state-corporatist lines. For instance, business organizations were organized in a singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated peak association, the Korean Chamber of Commerce and Industry (KCCI) had monopoly of representation among the business class in South Korea since the law mandated all businesses to join the KCCI (Fields 1999).

Not only were the chambers of commerce organized in a state-corporatist fashion, so were the sectorial and trade associations. According to Park, there were around 2172 sector-based business associations in South Korea in 1970, all granted by the regime with monopoly of representation (Park 1987). For example, the Korean Textile Association had monopoly of representation in the textile industry, while the Korean Traders Association had monopoly of representation in the trade sector (Park 1987).

Although the military regime also had a state-corporatist organizational structure to preempt independent unionism, the Korean military regime had less penetration and control over the labor force compared to its Taiwanese counterpart. Similar to Taiwan, labor under Park's military authoritarian regime was organized in a state-corporatist manner. The Federation of Korean Trade Unions (FKTU), a state-sponsored peak association, was the only authorized peak labor union (Park 1987; Koo 2001). Yet the military state did not fully grapple with the labor organizations. The FKTU was created under American supervision in the 1940s primarily to fight against communists and leftist unionist. It was organized bureaucratically and had very limited popular base (Park 1987).

Enterprise unions were managed and controlled by the chaebols rather than by the state. Union leaders were usually selected and paid by the employers, so union officials were most of the time loyal conformists rather than militant and resistant activists were selected. Unions were nominally structured under the state-corporatist tree, but usually organized in the enterprise level and manipulated by employers (Park 1987).

The state had little control over the labor force other than monitoring through the KCIA and the negative feedback mechanism of violent suppression whenever there was a strike. Despite the relatively weaker penetration compared to the Leninist party-state in Taiwan, interest groups, with the possible exception of the FKI, had little autonomy and freedom to conduct collective actions. The civil society was largely controlled and monitored by the military regime in South Korea.

Chaebol-led economic development and the Symbiotic State-Business Relations

Chaebols, or family-owned business-conglomerates, were the sources of growth during the developmental period in the 1960-1980s, and remained the dominant player in the Korean economy up to this day. The earliest chaebols were originated in the colonial period (1910-1945), where a limited number of Korean merchants took part in the trade or even the industry (Kim 1997).

After the Second World War, the Lee Syngmun regime (1948-1960) initially adopted the import-substitution strategy of economic development. The Lee regime created a large corrupted network of interest among big business, the bureaucracy, and the Liberal Party through the distribution of US aid funds and projects based largely on patronage and nepotism. Big business sought rent by colluding with the state while the regime under Lee co-opted businesses for political funds and support (Kim 1997; Eckert 1993; Woo 1992).

It was since General Park Chung Hee took power that the chaebols have fully taken off. The Rhee regime was ousted by the student protest in 1960. Chang Myon, the prime minister took power and Yun Bo-seon became president. The short-lived

democratic regime in 1960s was then ousted by the military coup led by Park Chung Hee. At first, Park arrested all the capitalists and charged them with illicit accumulation of wealth, but later realized that his vision of “Rich Nation, Strong Army” could not be fulfilled without the cooperation of the chaebols. Park later renegotiated with the capitalists and eventually formed an alliance with the chaebols. Park Chung Hee then established the Economic Planning Board in 1961 and launched the First Five Year Economic Development Plan in 1962 (Kim and Park 2011). Capitalists whom Park believed to have the entrepreneurial spirit, for example Chung Chu Yong of Hyundai, were chosen to participate in the state-led developmental plan (Kim and Park 2011; EM Kim 1997).

Since 1961, the chaebols were in close ties with the government and enjoyed economic privileges. The state provided state guaranteed foreign loans and subsidized bank loans to develop and expand their businesses. The chaebols started with light industries like textile (Kim 1997). In 1970s, because of the growing neo-protectionism of the advanced industrialized countries, in particular, the United States, the Park regime announced the Emergency Decree for Economic Stability and Growth. In 1972, Park initiated a “self-coup” and an amendment of the constitution, the Yushin constitution, and initiated the Heavy and Chemical Industry Project, where the chaebols took part in heavy industries like petrochemical, automobiles, and steel (Kim 1997; Kim and Park 2011). Gradually, the chaebols grew and expanded rapidly under the tutelage of the developmental state. By 1970s, the chaebols became large multi-sectorial conglomerate groups that dominated both

the upstream and downstream industries, both the export market and the domestic market (Kim and Park 2011).

The chaebols not only had great economic prowess, they had the freedom to form their own pressure group, the Federation of Korean Industries, which worked largely outside the state-corporatist system. The FKI was established as a summit organization and served as a channel to defend the collective interests of big businesses. For example, in 1972, the FKI lobbied the state to reduce taxes, expand money supply, and order banks to take over the usurious curb loans to relieve debt burden of firms (Woo 1991). The FKI also enabled the state to control, shape, and influence those interests and helped the state and the chaebols to negotiate the market shares required for the establishment of industrial rationalization cartels, which aimed at preventing excessive competition among rival conglomerates (Kim and Park 2011).

More importantly, the FKI served as a channel for business and industrial ideas from the business sector to the state. According to Kim Ip-sam, FKI executive vice-chairman during the Park era, the FKI suggested important policy ideas to the bureaucracy and to Park, including the construction of Ulsan Industrial Complex, the strategy of export promotion, and the strategy of attracting foreign capital and commercial loans (Kim 1997; Kim and Park 2011).

Besides, the economic reasons, Park organized the FKI to monopolize the political loyalty of its members and preempt not only the opposition but also his potential rivals within the ruling coalition from securing an independent source of political funds (Kim and Park 2011).

Regardless of the economic prowess of the chaebols during the developmentalist era, the chaebols could never openly challenge the state. They were still dependent on and constrained by the state in three ways. First, the state controlled the sources of finance. Immediately after the coup in 1961, the Park military junta nationalized all the commercial banks in South Korea while bank-loan and indirect foreign investment through savings remained the primary sources of finance of the chaebols, the state-controlled finance kept the businesses dependent on the state and served as both a carrot and a stick that ensured businesses to follow the developmental plan of the developmental state. On the one hand, the state provided policy loans and preferential borrowing to the collaborative chaebols. On the other hand, the monopoly of finance could force the private sector to subordinate corporate interest to policy objectives. Private businesses would risk financial dried-up if they failed to reach the target of the developmental state, or if they openly confronted with the military authority. The control over finance kept the businesses in place and minimized the potential principal-agency problem in the implementation of state-guided industrialization (Woo 1991; Eckert 1993).

Secondly, the chaebols were constrained by the business because the state had the authority to allocate business licenses. The state's control of licensure defined and limited the scope of a firm's activities, since the chaebols had to obtain the permission of the state in order to establish, modify, or expand their companies. The control of market access was decided by the state, and the expansion of the chaebols was indirectly dependent on the will of the state (Eckert 1993).

Third, the state controlled the Korean business by the Office of National Tax Administration (ONTA). The office managed the corporate taxes and had the power to declare a firm guilty of tax evasion that would result in not only additional tax payment and penalties but also criminal persecutions. The ONTA served as an effective tool of the military state to ensure that business profits and expenditures flow only into the approved areas. The office could effectively punish businessmen who have violated the state economic guidelines and regulations or somehow offended the government. The military government had used this tool to contain the chaebol power (Eckert 1993).

We see that the Korean businesses and the military state were in close partnership during the high growth period. The state tolerated relatively large autonomy in corporate governance and interest representation of the chaebols as long as they fulfilled the developmental plans and not involved in politics. More importantly, the developmental state provided generous economic privileges and financial incentives for the chaebols to fulfill the national economic development plan envisioned by Park. Yet it is clear that the military government was still holding tight control of the business sectors through the control of finance, business licensure, and the judicial system. Despite the relatively symbiotic relationship, the state was still the hegemon in this relationship.

Unlike the clear division of labor between large SOEs upstream industries and SMEs in the downstream industries in Taiwan, the private sectors in South Korea could participate in nearly all aspects of the economy. The family-owned business conglomerates, or the chaebols, were able to expand their businesses in multiple

sectors under the tutelage and support of the developmental state. The control of the chaebols over the market was immense. According to Fields, in 1983 the top fifty chaebols had sales equivalent to nearly 94% of GNP. In 1986, the top ten chaebols had total sales of over US\$65 billion, more than 65% of Korea's 1986 GNP. In 1991, the top five chaebols have revenues of US\$ 116 billion, equivalent to just under half of Korea's 1991 GNP (Fields 1995). With such economic concentration, the neoliberal reform and economic restructuring carries different meanings different things in South Korea and in Taiwan.

The Great Transformation in South Korea: Political and Economic Crisis in the 1980s and 1990s

The assassination of Park Chung Hee and the military coup led by Chun Doo Hwan signified a gradual change in state-business relations, and thus the incentives for businesses to organize. The Chun regime had little legitimacy in Korean politics. Since the beginning of his term, the democratic movement has escalated and has received greater sympathies and support from the Korean society. Besides, the economic problems caused largely by the overexpansion of Park's Heavy and Chemical Industry projects have emerged. The growing economic inequality generated immense criticism on the tight state-business partnership during the developmental era. The power dynamics was in gradual change in the 1980s under the presidency of Chun Doo Hwan, and these changes in turn affect the incentives for the Korean businesses to organize.

Under these changing political and economic conditions, Chun adopted a different political strategy, which eventually forced the businesses to organize. At the political front, he joined the masses and criticized the greedy and immoral Korean capitalists and purged them to gain legitimacy (Moon 1994). On the economic front, Chun privatized the commercial banks with deliberate exclusion of the chaebols, and adopted policies to streamline the corporate structure of the chaebols and reduce the economic concentration of the chaebols (Moon 1994; Lin 2010). On both fronts, the changing attitude of the state towards business forced the chaebols to organize and invest in collective actions to resist the increasingly unfavorable economic policies and the growingly hostile state.

Apart from the political crisis, the labor movement also forced businesses to organize themselves. In 1987, a great wave of labor offensive broke out. Workers in Hyundai Heavy Industry led a strike in Ulsan, and the movement was later spread to the entire Hyundai group and eventually throughout the nation. The Chun weakened authoritarian regime, which was struggling for political survival, was reluctant to suppress the strike leaving the chaebols unprotected in the labor movement. The unprecedented scale of labor movement forced businesses to organize themselves and strengthened the Korean Employers Federation (KEF) to battle labor activism, strike deals, and collective bargain with labor (Koo 2001; Scheldon and Jun 2006).

With these economic and political changes, the Korean businesses started to organize autonomously at the national level. The Federation of Korean Industries and the Korean Employer Associations, which were closely connected and both

financed largely by the large enterprises, became increasingly important in areas of economic policy as well as labor relations. In the following section, we will elaborate on how these political and economic changes shape the business associations in South Korea.

Wrestling with the hostile state: business association as a response to purges of capitalists and neoliberal reforms

Chun Doo Hwan had inherited a very difficult political situation from his predecessor. Chun took power at a time of growing voice for democratization, the society was flooded with complaints and grievances about the economic inequality and social injustice that the developmental state had created had started to evolve. The problems of economic overexpansion under Park's Heavy and Chemical Industry had also emerging. The Chun regime faced great political, economic and social challenges.

Economically, Korea faced the greatest economic difficulty since the Korean War. In 1980, the year Chun took control, South Korea experienced a negative GNP growth which had not happen since the end of the Korean War. Politically, Chun's fledging regime was vulnerable due to the lack of legitimacy and the growing voice of democracy. Out of political calculation, Chun's regime decided to break the pact with the chaebols and dismantle the developmental state. Such move allowed Chun to blame the chaebols for all the economic hardship and thus gain greater popular support (Moon 1994).

For political survival, Chun purged the Korean capitalists and attacked the chaebols under the name of the “social purification”. The businessmen were accused of corruption, money-laundering, and illicit accumulation of wealth. The regime manipulated the judicial system and “punished” the businessmen with fines, seizure of wealth, or even imprisonment (Moon 1994). Besides, Chun Doo Hwan forced the chaebols to pay certain tributes to the state, including sports promotion, defense donation, crime prevention funds, rehabilitation funds, disaster relief funds, and so on. The Chun government publicly distanced itself from the chaebol and joined the masses in criticizing, blaming, or even punishing the “immorality and greediness of the chaebols” (Eckert 1993; Lin 2008).

In response to the changing political and economic environment, the chaebols were pressured to organize autonomously to fight against a business-hostile regime. The FKI became the platform and the collective voice of the chaebol. For instance, the chaebols repudiated the accusation by the state, stating that it was not desirable for the government to make big businesses the scapegoat for the economic hardship in South Korea. In a public speech, Koo Cha Kyung, the chairman of the FKI and the head of the Lucky-Goldstar groups proclaimed that attempts to punish big businesses would only exacerbate economic problems. In other press conference, Koo announced that “in the future the chaebols will collect all political funds openly within the business community, and we will distribute these funds only to those parties supporting a free-market economy.” (Cited in Eckert 1993). Whether these practices were actualized was not documented, but it clearly shows the blatant and

confrontational stance the Korean businesses took towards the political authority, which was rare in Park Chung Hee's era.

Not only did the Chun's regime criticized and purged the Korean businesses class publicly, it initiated policies that limited the power and domestic market share of the chaebols. Chun enacted the Monopoly Regulations and Fair Trade law that undercut the chaebols' domestic position. The law regulated cartelism, price monopoly, and "unfair competition." Besides, the law prohibited cross-investment between the subsidiaries of the chaebol group (Eckert 1993; Lin 2008). The FKI protested vehemently and in the end, the law was not enforced. Although the effort was finally aborted, we see that the Korean politicians were committed to streamline the corporate structure of the chaebols and carry out neoliberal reforms that might harm the interest of the oligarchic chaebols in South Korea.

Similarly, the Chun regime privatized the commercial banks without allowing the chaebols to enter the banking industry. The state restricted the entry of the chaebols in the banking industry by limiting the purchase of shares to no more than 5% for each individual or enterprise. Besides, the state attempted to separate commerce and banking and planned to indirectly control the economic decisions of the chaebols through the appointment of chief executives of the commercial banks (Hahm 2003). Besides, the Ministry of Finance also shifted the priority of credit towards the SMEs, agriculture, fisheries, and mining in response to the social demands for equity, income redistribution, and balanced growth. The government tightened the credit control of the chaebols reduced the policy loans chaebols usually got in the past (Hahm 2003). The FKI again protested against such policy on

the one hand, and shifted their sources of corporate finance to non-bank financial institutions on the other hand.

In the 1980s, government actions, whether legitimate or not, have continued to create incentives for the Korean businesses to organize. The Roh Tae Woo regime after Chun continued to adopt the “co-opt the middle class, squeeze the big business” strategy. Although there were recesses where the state reintroduced pro-business policies, the Roh regime was highly critical of the chaebols. It blamed the big businesses for the skyrocketing stock and real estate prices. It also accused the state as the cause of the growing income inequality in South Korea (Moon 1994). The business-hostile political rhetoric remained after Roh took power.

Although much of the reform was unsuccessful and ineffective in the end, the chaebol sensed that the close state-business relations could no longer be sustained. The business-hostile political rhetoric created great uncertainty for the businesses. As the state continued to take a hostile stance towards the chaebols, the private sector continued to make efforts in organizing resistance and retaliation. The state-business confrontation in the 1980s and 1990s was a crucial factor for the centralization and consolidation of business organization in South Korea.

Coping with angry workers: Business organization in response to labor militancy

Besides the growing political uncertainty due to democratization, the outburst of labor activism in the 1980s created great incentives for the Korean businesses to organize and conduct collective actions. During the authoritarian developmental era, the military consistently suppressed labor strikes and intervened in labor

disputes. The chaebols were free to pursue their labor-cost-minimization strategy and militaristic styles of labor management. Such practice was embedded in Park's nationalistic rhetoric for national economic development and "Yushin." (Koo 2001) Seeing the rise of labor militancy in the light industries, the Federation of Korean Industries established the Korean Employers Association in 1970 (renamed as the Korean Employers Federation, or KEF in 1981) to specialize in industrial relations. However, due to the strong state support in labor suppression, there were little collective actions other than the provision of wage guidelines and consultation services (Jun and Sheldon 2006).

However, in the late 1980s, the Korean businesses suffered a great shock by the labor militancy. In 1987, the Korean industrialists faced the greatest wave of labor strikes unseen in Korean history. The Great Workers' Struggle started in 1987 in June, two weeks after Roh Tae Woo, the chairman of the ruling Democratic Justice Party and the handpicked successor of the military dictator Chun Doo Hwon announced that the democratic presidential elections will be opened and constitutional amendment will be granted. The Grand Strike started in Hyundai Heavy Industries in Ulsan, and it later was spread to different subsidiaries of the chaebols and to other chaebol-owned factories in other parts of the country. Later Daewoo, Kia, Samsung, and Lucky-Goldenstar factories in Pusan, Changwong, Masan, Kwangju, Chonju, Kunsan, Okku, Kimje, and even Seoul were affected. In the year of 1987, there were 1.2 million workers on strikes in industries ranging from mining, manufacturing, dockyards, transportation, and service. In 1987 alone, there were 3749 strikes, compared to 276 in the year before (Koo 2001). Workers

attempted to form independent, self-governing unions first in the factory branch and later expanded to the whole business group. In 1994, activists later established an independent national peak association, the Korean Confederation of Trade Unions (KCTU), attempting to replace the official state-corporatist peak association, the Federation of Korean Trade Unions (FKTU).

The capitalists were caught unprepared, partly because of the spontaneity of the strikes, and partly because of the changing attitude of the state towards labor disputes. In the past, the Korean industrialists relied on the anti-communist military state to crack strikes. Fearing that labor strikes might have been instigated by communist agents from the North, the Rhee and Park regime were once recklessly crush labor strikes without hesitation. However, the Chun Doo Hwan regime was more ambivalent about the suppression of workers. Facing the growing voice of democracy, Chun's party promised democratic elections and constitutional reforms. The struggling regime was reluctant to repress strikes in the same way its predecessors did. So, the Chun chose a hands-off position on labor-relations, while gave the Korean businesses little choice but to promise wage increase and improvement of benefit, while on the other hand hired thugs to disrupt voting, union registration, and other labor activities.

Soon after the short-term effort to buy off workers, the employers were considering long-term strategy for labor relations. They realized that collective actions were needed to confront militancy labor movement and independent unionism. Thus, they strengthened Korean Employers Association to meet the changing industrial relations of the country. According to Jun and Sheldon,

membership of the KEF rose from 295 firms to 361 from 1986 to 1991. In 1989, the Consultative Body for Business Organizations was established and in 1990, the Council for National Economy and Social Affairs was established (KEF). In 1989, the KEF formed the Council of Korean Employers Organization (CKEO) to strengthen the employer voice to government (Jun and Sheldon 2006; Koo 2001). In response to the changing socio-political environment, the Korean businesses chose to strengthen the peak employer association.

To curb unrestrained labor militancy and the cut the wave of work stoppage, the KEF in 1990 announced the “No work, no pay” principle (Koo 2001, KEF). When Kim Young-Sam came to power in 1993, he initiated participatory labor policies. In 1993, a tripartite forum was formed (Jun and Sheldon 2006). The Kim Young-Sam government managed to invite the FKTU and the KEF on the bargaining table and both agreed on a wage increase rate. Both sides agreed to limit the wage increase within the 4.7%-8.9% range in 1993 and within the 5.0%-8.7% in 1994 (Han et al 2008). Yet centralized collective bargaining was discontinued after 1994.

The tripartite wage bargaining greatly improved the external status of the KEF. With the official role in the tripartite bargaining, the association could then declare itself to be the representational body of employers as a whole. The creation of the independent, non-conforming KCTU created challenges to the KEF, but also created conditions for the KEF to maintain cohesion among its members. The FKTU’s continued accommodative attitude towards the state and capital helped the KEF acquire its external legitimacy as a national center of industrial relations where it could contribute through representation and lobbying. On the other hand, the

KCTU's militancy encouraged the KEF to develop its operational expertise in coordinating and supporting members in collective bargaining, and in the process helped the KEF develop cohesion among large chaebols (Jun and Sheldon 2006).

We see the changing industrial relations state-labor relations created new incentives for the Korean business to organize. The empowerment of labor forced the Korean businesses to invest on business associations to collectively deal with labor unrests and to create an employer-wide interest group to lobbying on pro-employer organization. The alternative of coordinative and participatory labor policies all have created incentives for the employers to invest in the business organizations, especially the peak association in the center.

The Financial Crisis and the Tripartite Commission

The Asian Financial Crisis entirely changed the business-state power dynamics in South Korea. The IMF involvement in the crisis created a window for reforms and changes that were too politically costly in the Roh Tae Woo and Kim Young Sam regime. Under the pressure of the IMF, reforms in industrial restructuring, specialization, financial transparency, corporate governance could finally go through. Amongst the various dimensions of the economic reform, the IMF-mandated labor reform which included the abolishment of life-time employment and labor flexibility was the most difficult to implement. There were vehement oppositions of the labor flexibility and corporate restructure reform.

Given such difficulties, the Kim Dae-Jung regime wanted to implement neoliberal labor policies through social dialogue. In January 1997, the Korean Tripartite

Commission was created to speed up the structural reform through social pacts. The Commission was composed of representatives from the government, the KEF on the business side, and both the FKTU and KCTU on the labor side. On the labor side, the peak unions demanded the legality of multiple unions in the enterprise, while the businesses demanded a flexible labor market. In February, the Commission agreed on the legalization of layoff to promote restructuring, while the government promised to enhance the national social security network and to improve basic labor rights, including allowing unions to participate in political activities, and the chaebols agreed to make their finance more transparent (Han et al 2008).

In March 1998, Kim Dae-Jung promulgated the Tripartite Commission law through a presidential decree (Han et al 2008; Jun and Scheldon 2006). Since then, the institutional status of the commission has been raised and the Tripartite Commission has become a permanent social dialogue body. In 1999, the Act on Establishment and Operation of the Korean Tripartite Commission was passed at the National Assembly. The Commission met at least once a year. In March 1998, three subcommittees were set up: economic reform, employment policies, and labor relations. Gradually, the Commission has become more institutionalized and sophisticated (Han et al 2008; Jun and Scheldon 2006).

Regardless of these achievements, the transition towards societal corporatism has been difficult. Consensus between business, state, and labor was difficult to reach and the strength and effectiveness of the Commission has always been dependent on changes in power relations between the state, business, and labor. Nevertheless, the Tripartite Commission created a forum of exchange of ideas and bargaining. The

Commission provided an opportunity for the Korean Employers Association as a peak business association to represent the entire business class and act as one collective body. The institutional structure of the Korean Tripartite Commission created new incentives and selective benefits for the businesses to participate in the national level peak business association.

Party politics and Business Associations

We might wonder, given the experience in Europe and Taiwan, what roles did political parties play in the transformation of business associations in South Korea? Interestingly, the political parties in South Korea, unlike their counterparts in Taiwan, played only a very marginal role in the formation of business association. The question is why is it so. In the section, I will discuss why the political parties did not play an important role in the formation of business association in South Korea. I argue that because of the unique political reality, the political parties were not organized along class lines. Political competition remained at the stage of strongman politics. Ideology-based party competition had not emerged in the 1990s in South Korea. Thus political parties play only a minor role in the shaping of business interest organization in South Korea.

Democratization invites party politics and electoral competition. As Martin and Swank suggest, party politics is a cohesive or divisive force in business interest organization, depending on the electoral system. A winner-takes-all majoritarian tends to create a two-party system, which tends to cultivate factionalism and division within the business community, since both parties are catch-all parties and

they both want to influence and maximize political support from the business class. So a two-party system tends to create a divisive and pluralist business interest organization. In contrast, a parliamentary proportional representational system tends to cultivate a united business association at the national level, since a proportional representational system tends to cultivate a multi-party system with ideological differentiation, making a rightist liberal party focusing the votes of the capitalists and the upper middle class more likely (Martin and Swank 2008).

Since the establishment of the Sixth Republic in 1987, the Koreans adopted a mixed electoral system. The presidential election has been conducted by majoritarian winner-takes-all mechanism, while the National Assembly, the unicameral legislative body in South Korea, has been elected by a three-fourths majoritarian, and one-fourth proportional representation (Kim 2000). Regardless of the proportionality in the National Assembly election, since the presidential election was conducted solely by majoritarian vote and the majority of the National Assembly delegates is elected by majoritarian mechanism. Thus, we would expect an emergence of a two party system and the parties would naturally compete for the support and votes of the businesses, creating a divisive force for the business to unite as one singular national business association.

The empirics interestingly are different from the prediction. Party competition in Korea throughout the democratization process did not create a sharp divide in business association. What is more intriguing is that none of the parties during the 1990s were openly aligned with the business class, with the possible exception of the short-lived United National Party led by Chung Ju-yong, the chairman of

Hyundai. As Kim Byung-Kook suggests, there was little class politics or urban-rural divide in Korean politics, at least in the 1990s and early 2000s, and party politics seems to play a minor, if any, role in business politics in South Korea (Kim 2000; Kim et al 2008).

Interestingly, as scholars like Kim suggests, the democratization process in South Korea did not create a great realignment of interest and political power, as in the case of Taiwan. Class division was not reflected in electoral politics. The militant labor movement created a workers' party, the Rodongdang, but the party was historically marginal in electoral politics and could only win seats in the legislative branch, through the proportional representation mechanism. The Workers Party never played a significant role in presidential elections (Kim 2000). The class cleavage, which is the basis of the institutional argument, does not seem to apply in the case of South Korea.

Besides, none of the major political parties were openly aligned with the business class or the working class. The politicians avoided programmatic commitments and there were little ideological difference among the candidates. The society was "depoliticized," because of the Korean War. Voters refused to distinguish between redistributive social democracy with brutal Stalinism (BK Kim 2000).

Moreover, there was little no rural-urban divide either. As Kim suggests, the national education and the media closed the rural-urban gap. Through these channels, the rural areas are culturally connected to the urban areas. Besides, with close kinship ties between the population and the rural areas, there was no independent rural cultural identity, and there was no significance in voting pattern

between the rural areas and the urban areas. The rapid urbanization blurred the cultural identity of the countryside (Kim 2000).

Without significant partisan divide, electoral politics was a game of personal charisma and regionalism. Voters tend to support candidate from their region. For example, voters from Yongnam supported Kim Young-sam and voters from Honam supported Kim Dae-Jung (BK Kim 2000). With personal charisma and regionalism playing such an important role, party merges and splits were common. Party remained electoral instruments of politicians and did not play an important role in electoral politics (BK Kim 2000).

Unlike Taiwan, where political cleavages were clear along ethnic lines and on policies towards the Mainland, there were little clear political cleavages that separated the Korean electorate in the 1990s. While the political influence of the authoritarian regime was not as engrained as that of the KMT, political parties did not play an important role in mobilizing opposition and demand democracy. A culture of strongman politics remained in the Korean political culture until recently. Since the influence of the politicians have not been anchored in political parties, the investment on long-term partners was not worthwhile, therefore, we did not see that party politics playing a crucial divisive role, despite the majoritarian electoral system in the republic.

We see that in response to the changing political environment, the Korean businesses have strengthened the existing business associations and became more active in the public to protect their collective interests and economic status. State

actions created direct incentives for the organization of business actors. The state, in this case, acted as a negative yet cohesive force for business association.

Besides the impact of changing conditions on business interest organization, the changing labor regime has also created incentives for the businesses to organize. The changing industrial relations have created a new role for the business peak association in collective bargaining and political participation in social dialogue institution. The impact of labor militancy on business interest organization should not be neglected.

Conclusion

This paper shows that although the developmental state dominated the economic scene in both countries during the authoritarian developmental era, yet the transition of business associations followed very different paths when the two countries underwent the process of democratization and economic liberalization,. The Korean businesses, in response to labor militancy and hostile state actions, chose to strengthen the national peak business associations to effectively conduct collective actions. Democratization changed the strategy of the politicians, pressuring them to distance themselves for the chaebols. Democratization also increased the political cost of labor suppression, forcing the businesses to coordinate in response to the growing militancy of the labor force. Democratization, in the case of South Korea, altered the cost-benefit balance of collective action among the Korean businessmen, making collective action more urgent and necessary.

In contrast, democratization increased the organizational cost of the Taiwanese businesses. The growing electoral competition created political incentives for the ruling KMT party to co-opt individual business groups and distribute political rent for electoral support. The rent-seeking behavior of individual business groups undermines the possibility of the formation of a united peak business association.

Besides, the relatively sophisticated party politics effectively created a political divisive force for the organization of a national, singular business association. Chen's struggle for domination and control escalated the status of the National Association of Small-and-Medium-sized Enterprises and the China National Association of Industry and Commerce, making national peak association more pluralistic and unification more difficult (Huang 2004).

Yet it seems too early to conclude that the South Korean political economy is heading towards a corporatist, coordinative structure, while the Taiwanese political economy heading towards a pluralist, liberal direction. National level tripartite institutions have been evolving and consolidating in South Korea, yet up to this day, the business and labor actors have not reached any consensus on labor and social policies. The institution of social dialogue between labor and capital has not yet been embedded in the society and in the political economy. The tripartite commission is an artifact of the state and might not be sustained with a change in political interest of the politicians.

Besides, the legacy of the developmental state creates obstacles for an effective national scale social dialogue institution. The resilience of the corporatist peak labor union, the FKTU, has difficulty for collective actions of the labor class, in turn has

undermined the possibility for coordination between state, capital, and labor at the national level.

Similarly, it seems too soon to generalize Taiwan a pluralist, liberal economy. Despite the competitiveness nature of the peak associations, there has been significant cooperation between the state and the business community, or even tripartite communication (Kamimura 2008). Many of the sectorial associations remained strong and the coordination regular. There are pluralistic and liberal elements in the political economy and in the business interest organization in Taiwan, but it might be too early to conclude that Taiwan has undergone a full transition to neoliberalism and economic pluralism in Taiwan.

This paper has examined the politics behind the formation of an autonomous, national peak association. We see that the interaction between capital, labor, and the state has shaped the organizational structure and strength of the national association. Yet we have yet to see the interaction between the national peak association and welfare and economic policies. More research has to be conducted to examine the possible the impact of business association as a social organization in economic and welfare policies. However, I believe that this analysis can serve as a starting point for more future research and studies on the political participation and policy impact of business associations in newly-industrializing countries like South Korean and Taiwan.

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